

**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Joint Meeting of the Board of Trustees  
and the Advisory Committee on Retirement Matters**

**August 27, 2010**

On August 27, 2010, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a joint meeting with the Advisory Committee on Retirement Matters at 8:30 a.m. at the TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**

Ben Gorzell, Jr., Chair  
April Nixon, Vice Chair  
Pat Hernandez  
Julie Oakley  
Roel ("Roy") Rodriguez

Absent: Frank Simpson

**Advisory Committee on Retirement Matters**

Allen Bogard, City of Sugar Land  
Keith Brainard, National Association of State Retirement Administrators (NASRA)  
Ron Cox, Retired  
David Crow, Arlington Professional Fire Fighters  
Dean Frigo, Asst. City Manager for Financial Services, City of Amarillo  
Jerry Gonzales, Service Employees International Union (SEIU) – San Antonio  
Chris Heaton, Texas Municipal Police Association  
Scott Kerr, Texas State Association of Fire Fighters  
Michelle Leftwich, Assistant City Manager, City of Mercedes  
John Lewis, Councilman, City of North Richland Hills  
Randle Meadows, Arlington Police Association  
Jim Parrish, Texas Municipal Human Resources Association (TMHRA)  
Mike Perez, Texas City Management Association  
Bob Scott, Assistant City Manager and Chief Finance Officer, City of Carrollton  
Steven Segal, Councilman, City of West University Place  
Mike Staff, Combined Law Enforcement Association of Texas (CLEAT)

**Present also were:**

David Gavia, Acting Executive Director  
Ian Allan, Director of Internal Audit  
Rhonda Covarrubias, Director of Finance  
Eric Davis, Deputy Executive Director  
Bernie Eldridge, Director of Human Resources  
Nancy Goerdel, Chief Investment Officer  
Leslee Hardy, Staff Actuary

Holly Macki, Director of Real Estate  
Michelle Mellon-Werch, Associate General Counsel  
Cindy Morse, Executive Assistant  
Debbie Munoz, Director of Member Services  
Eddie Solis, Director of Government Relations  
Christine Sweeney, General Counsel  
Bill Wallace, Director of Communications  
Scott Willrich, Director of Information Resources  
Robert Klausner, Klausner & Kaufman  
Marcia Beard, R. V. Kuhns & Associates, Inc.  
Nick Woodward, R. V. Kuhns & Associates, Inc.  
Joe Newton, Gabriel, Roeder, Smith and Company  
Mark Randall, Gabriel, Roeder, Smith and Company

**Guests:** Debbie Farahmandi, Investment Operations Specialist  
Melinda Griffith, Combined Law Enforcement Association of Texas (CLEAT)  
Glenn Jones, Garland Firefighters Association  
George Kaufman, Director of Finance, City of Garland  
Anthony Mills, Regional Manager, City Services  
Lorraine Moreno, Regional Manager, City Services  
Candace Nolte, Controller  
Kristin Qualls, Assistant Investment Officer  
Kate Reed, Investment Analyst - Equities  
Katie Reissman, Investment Analyst – Fixed Income  
David Rodriguez, Regional Manager, City Services  
Sean Thompson, Regional Representative, City Services  
Greg Vick, Texas City Management Association  
Merita Zoga, Representative Truitt’s Office

The meeting was called to order by Mr. Gorzell at 8:32 a.m., and Ms. Hernandez gave the invocation.

Mr. Gorzell began the meeting by introducing the System’s newest trustee, Ms. Julie Oakley, with the City of Lakeway. Ms. Oakley thanked the Board for the welcome and stated that she felt blessed to be here and for the ability to serve.

Mr. Gavia announced that the Board would take some of the agenda items out of order as a few of the Advisory Committee members must leave later in the morning to attend another meeting.

**1. Discussion on Real Return Policy Guidelines**

Ms. Goerdel began her presentation by reminding the Board that the strategic asset allocation policy includes a 5% allocation to the Real Return Asset Class. She stated that R. V. Kuhns had previously presented educational sessions on inflation-linked bonds as a way to implement

the Real Return Asset Class. She said that R. V. Kuhns had previously recommended to the Board that TMRS implement this allocation through an actively managed global inflation-linked bond mandate, and that the Board previously ratified the search for a global inflation-linked bond manager. She indicated that the manager selection recommendation will be brought before the Board at the September meeting. Ms. Goerdel thanked Holly Macki and Katie Reissman for their work on the Guidelines. Ms. Goerdel indicated that R. V. Kuhns provided input into the Guidelines.

Ms. Goerdel proceeded to discuss the Guidelines stating that they provide enough flexibility to allow for the benefits of each investment strategy while still having relatively conservative constraints. She indicated that the index to be used as the performance objective is the Barclays Capital World Government Inflation-Linked Bond Index Unhedged in U.S. Dollars and that the universe to be used in this mandate is the Barclays Capital Global Aggregate Bond Index. She discussed some of the rules to be included around the active management activities to constrain the managers for managing the different risks associated with this mandate including credit quality and sector constraints. She also discussed permissible and prohibited investments and activities. She also mentioned that there are a few clean-up items for better clarification as well as a number of terms that still need to be added to the Investment Policy Glossary.

Mr. Gorzell asked about monitoring and compliance with the policy. Ms. Goerdel answered that this would be monitored by staff and that they will be using the compliance system resources through State Street. Mr. Gorzell also asked about timing on funding if approved. Ms. Goerdel responded that initial funding is expected by early November. One final question concerned where the money currently is that will fund this mandate and Ms. Goerdel responded that the funding will come from the Core Fixed Income Portfolio, which is the funding source for the portfolio diversification.

## **2. Investment Report**

Ms. Goerdel introduced Marcia Beard and Nick Woodward. Ms. Beard began the performance review. She stated that the markets looked quite good through April, but since then the markets have been disappointing, resulting in negative returns for the second quarter. This is due to many factors including the oil spill, the financial viability of several countries in Europe, financial reform concerns, as well as concerns and lack of confidence in the market. She pointed out the positive and negative sectors in the market. As of June, TMRS still had a positive return for the year of 1.32. She walked the Board through the portfolio's diversification and liquidity as monitored by R. V. Kuhns.

Mr. Woodward walked through the June 30 performance stating that the fund did well compared to peers. He briefly reviewed the Total Fund Composite and different sector composites.

## **3. Investment Program: Interim Review and Next Steps**

Ms. Goerdel began this presentation by saying that this agenda item is the result of the Advisory Committee requesting an update on the Investment Program's diversification plan. Ms. Goerdel then turned the floor over to Ms. Beard. Ms. Beard introduced the topics to be

discussed, including a review of the asset allocation targets versus the portfolio, an organizational update of the Investment Department, and timeline/next steps. She began by first discussing the asset allocation targets and by reviewing the current allocations. She highlighted the current and final expected return expectations and other risk factors. She also described the distribution of expected returns from the diversification plan and highlighted the progress of diversification. Mr. Crow asked what the investment return assumption is for the median public plan. Currently, 8% is the average public fund investment return assumption. Mr. Randall mentioned that many systems are looking to potentially lower these actuarial assumptions and Ms. Beard responded that their outlook is consistent with that of their peers. There was continued discussion on targeted returns. Mr. Gorzell stated that this is a good ongoing discussion to have; however, we must continue to work on diversifying the portfolio.

Mr. Woodward reviewed the portfolio. He discussed the asset allocation study review in May 2010, focusing on liquidity, risk, thematic analysis and stress testing. He discussed asset class accomplishments, as well as key changes and additions within the organization. Ms. Goerdel directed the Board to the organizational chart included in the Board materials. She discussed that the System had selected a risk management software product and was in the process of negotiating a contract. Going forward, Mr. Woodward mentioned that in the spring of 2011, R. V. Kuhns will do an asset allocation review and that the investment policy is reviewed annually. He also discussed steps to be taken within the different asset classes.

Mr. Woodward concluded his presentation by reporting that diversification has continued in a methodical manner across divergent asset classes with timing and execution being beneficial to performance. He added that organization improvements and additions are on the horizon and that there is still significant work and change ahead.

*The Board took a short break from 10:00 – 10:15 a.m.*

#### **4. Advisory Committee Report to the Board on Legislative Matters**

Mr. Solis began the discussion with a brief recap of the history of the Advisory Committee and the meetings held by the Committee. He mentioned that staff has provided the Committee with much information on cost of living adjustments (COLAs) and two-tiered plans. He then discussed the actions taken regarding fund restructuring and the draft language of a potential bill on this subject. He indicated that the Committee gave good feedback on the draft language even though this was their first chance to review this language.

Mr. Solis then discussed the motion on studying COLA options and the two-tiered options. Ms. Nixon clarified that the Committee did vote that fund restructuring be the sole focus of the coming legislative session.

Mr. Solis mentioned that the Committee took up a Communication Policy that is in line with the Board's Communication Policy. He stated that it was recommended that the Committee's version should be strengthened to suggest that Committee members not represent themselves as speaking on behalf of the Committee unless expressly authorized. This policy was overwhelmingly endorsed by the Committee.

Ms. Nixon thanked the Committee for their actions and invited comments from the Committee members. Mr. Lewis commented on the willingness by the Committee members to compromise. Mr. Parrish also stated his appreciation for the Committee's willingness to discuss and compromise. Mr. Meadows stated the need to create a strategic plan for the items to be discussed so that there is a road map of the items to be discussed in the future. Mr. Segal added that from his perspective as an elected official, he sees the Committee's value in discussing these critical issues in the future. Mr. Cox added that as the Board considers a strategic plan to be developed by the Committee, the Board should consider being involved in this process.

5. **Adoption of Minutes from the June 17, 2010 Special Meeting of the Board and the June 18, 2010 Regular Meeting of the Board**

Mr. Gavia introduced this item and asked if the Board members had any questions or revisions. As there were none, Mr. Rodriguez moved that all of the Minutes be adopted as presented. Ms. Nixon seconded the motion, which passed unanimously.

6. **Discussion of GASB's Preliminary Views on Changes to Pension Accounting Reporting**

Before beginning his presentation, Mr. Randall introduced Leena Ye, who works on the TMRS team. Mr. Randall began with a discussion on the GASB standards and the activities leading up to the Preliminary Views (PV). He believes that we are a long way from implementation of the PVs. He mentioned that in September 2010, GASB will get comments on the PVs, and he laid out the road map for where GASB is likely going with these PVs.

He said that the primary objective is to present the GASB's current views on employer recognition and measurement of pension expense and liabilities before developing more detailed proposals for changes. These PVs only relate to financial reporting and have no bearing on the funding or financing of such benefits. The focus is on recognition in a governmental employer's basic financial statement of pension liability and pension expense. He mentioned and highlighted the current employer standards, including the Annual Required Contribution (ARC) and Net Pension Obligation (NPO) and current actuarial valuation parameters. He then moved to a discussion of Net Pension Liability, stating that GASB is looking for something that is measurable with sufficient reliability to be recognized in an employer's basic financial statements.

He discussed potential changes to the discount rate and the convoluted steps that may have to be taken to determine this rate. He discussed the actuarial cost method, Entry Age Normal, that will have to be used in valuing liabilities and expenses for reporting purposes. He said there will be changes in the amortization of liability charges for reporting purposes with the net result being shorter periods, changes in the discount rate used, and also the use of Entry Age Normal actuarial cost method for reporting purposes. Mr. Randall mentioned the request for comments and the upcoming hearings. He also reiterated the next potential steps going forward.

7. **Call for Future Agenda Items**

Mr. Gavia briefly mentioned some of the key items on the agenda for the September meeting, including a recommendation on legislative package; a recommendation on global-linkers manager and policy; and a preliminary draft on real estate policy.

8. **Executive Session**

At 11:06 a.m., the Board entered into Executive Session, pursuant to Texas Government Code, §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and the meeting was opened to the public again at 12:06 p.m. All members of the Board who had been present when the Board went into Executive Session, with the exception of Roy Rodriguez, were again present.

As there was no further business, Mr. Gorzell adjourned the meeting at 12:06 p.m.



David Gavia  
Executive Director



Ben Gorzell  
Chair, Board of Trustees